

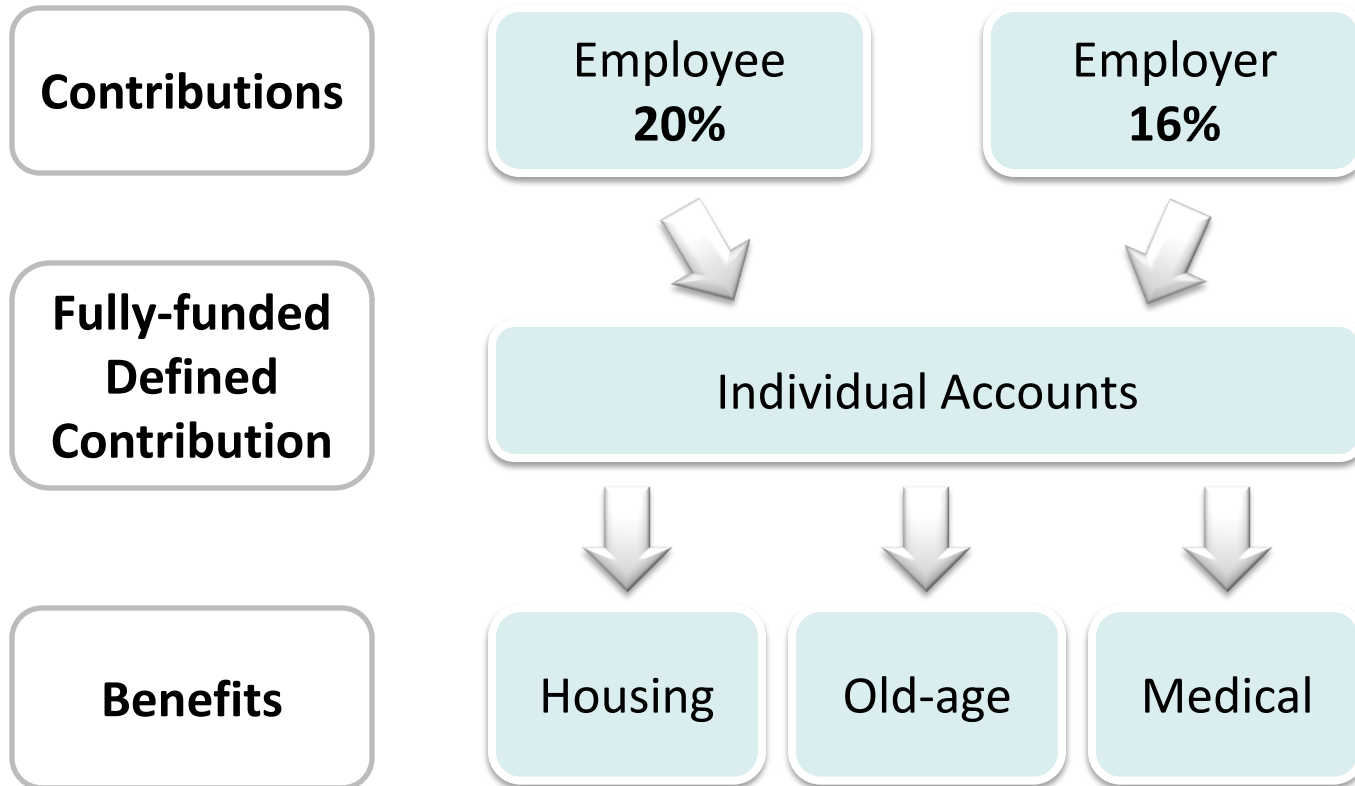
# Mandating Life Annuities in Singapore



Don Yeo

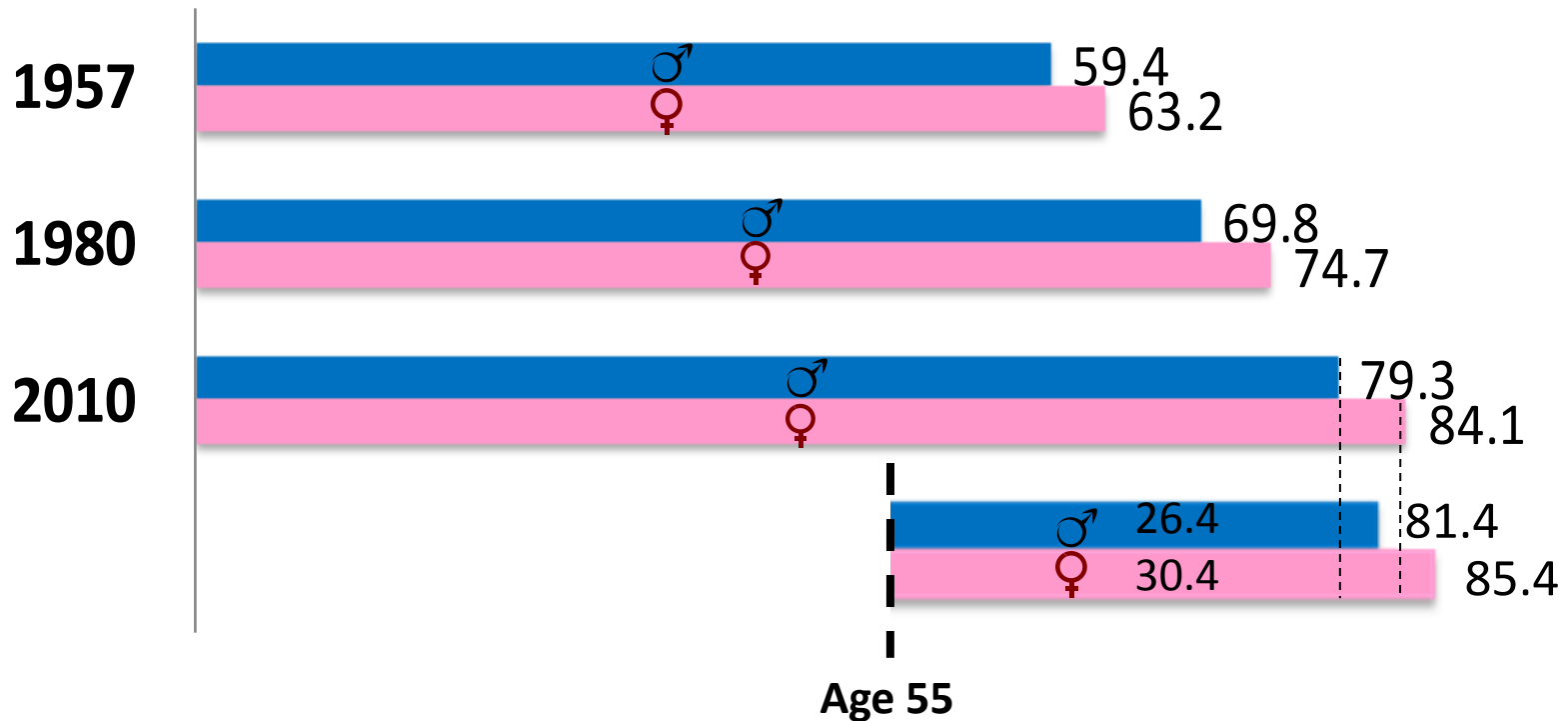
Deputy Chief Executive Officer  
Central Provident Fund Board, Singapore

# Central Provident Fund



# Singapore Demographics

Chart 1: Life Expectancy at Birth/ at Age 55



Source: Department of Statistics, Singapore, Demographic Indicators.



# The Need for Annuities

- At age 55, members can draw down via programmed withdrawal scheme
  - Only provides payouts for approximately 20 years
- Low rate of voluntary annuitisation
  - Only 1.6% in 2008



# National Life Annuity Scheme

- Basic and Affordable
  - Affordable premiums, refundable upon death
  - Steady income for life
- Fair
  - Premiums/ payouts actuarially determined & periodically reviewed
  - Payouts proportional to amount committed
- Flexible
  - Provision of options



# CPF LIFE

## (Lifelong Income For The Elderly)

- Steady income for life (entry age at 55)
- Refund provided upon death
- Actuarially fair premiums and payouts
- Financially sustainable over long-term
- Operated by trusted administrator (CPF Board)
- Extensive public education






# CPF LIFE

## (Lifelong Income For The Elderly)

- Mandatory for members aged 55 from 2013 with  $\geq$ US\$33,300
- Coverage:  $\approx$ 70% of the first cohort and  $\uparrow$ 
  - Reduces adverse selection
  - Economies of scale



# Choice of Plans

Plan	Non-refundable	Refundable		
	(A) Income	(B) Plus	(C) Balanced	(D) Basic
Monthly Payout	Highest	High	Medium	Low
Bequest	No bequest	Low	Medium	High
				



# Estimated CPF LIFE Payouts

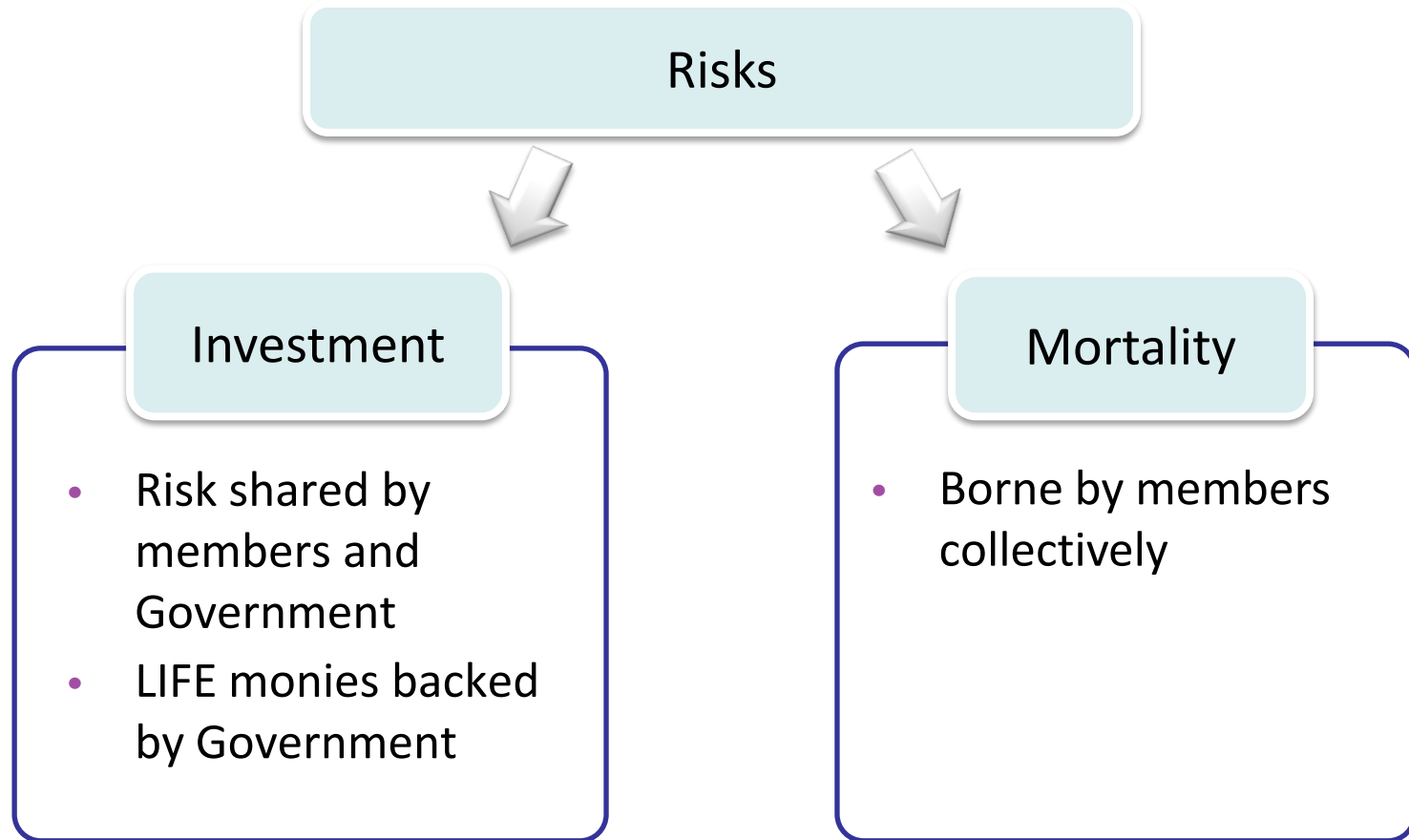
**55-year old male member with US\$70,000**

<b>Plan</b>	<b>Monthly Payout*</b>
<b>Income</b>	US\$680
<b>Plus</b>	US\$640
<b>Balanced</b>	US\$607
<b>Basic</b>	US\$569

*\*Assuming an interest rate of 4%. Actual payouts might vary.*



# Risk-Sharing Structure



# Investment Risks

- CPF monies backed by special Singapore Government Securities
  - Pegged to 10-Year Singapore Government Securities plus 1%
- Earns fixed coupon for longer tenure
- Weighted average of returns used for computing payouts
- Offers stability in interest returns

# Mortality Risks

## Idiosyncratic

- Auto-inclusion ensures effective risk-pooling
- Minimal anti-selection

## Systematic

- Payouts not guaranteed but designed to be stable
- Payouts adjusted annually to reflect actual investment returns & mortality
  - Interest/mortality rates ↓, payouts ↓
  - Interest/mortality rates ↑, payouts ↑

# CPF LIFE for Older Members

- Available for opt-in from Sep 2009
- Over 60,000 opt-ins to CPF LIFE
  - Significant compared to 72,000 private annuities sold to date
- Almost US\$3 bn committed to the scheme
- Approximately 9-10 cents per premium dollar
  - Compared to average of 6 cents per premium dollar from private annuities



**Website: [www.cpf.gov.sg](http://www.cpf.gov.sg)**

